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THE KROGER CO.

ANNUAL  
REPORT

1961



## Officers

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JOSEPH B. HALL

### Executive Vice Presidents:

JACOB E. DAVIS

JOHN M. LOCKHART

### Vice Presidents:

ROBERT MONTGOMERY

THOMAS T. OYLER

FRANK S. VAMOS

### Treasurer:

FRANK M. GRIEME

### Secretary:

JOHN L. STRUBBE

### Assistant Treasurers:

FRANK J. ANDRESS

CARL W. BRIESKE

PARK O. MOTTER

### Assistant Secretaries:

CHARLES L. ARNOLD

JOSEPH G. HOERTH

GEORGE A. LEONARD

### TRANSFER AGENTS

The Provident Bank,  
Cincinnati

Bankers Trust Company,  
New York

### REGISTRARS

The Central Trust Company,  
Cincinnati

Chemical Bank New York Trust Company,  
New York

## Directors

### JOHN C. BAKER

Retired President, Ohio University

### BEN H. CARPENTER

Chairman of the Board,  
Southland Life Insurance Company

### JACOB E. DAVIS

Executive Vice President

### FRED C. FOY

Chairman of the Board,  
Koppers Company, Inc.

### HARRY J. GILLIGAN

Proprietor, John J. Gilligan & Son

### JOSEPH B. HALL

President

### JOHN M. LOCKHART

Executive Vice President

### THOMAS T. OYLER

Vice President

### DAVID L. RIKE

President, The Rike-Kumler Company

### STANLEY M. ROWE

Chairman of the Board,  
Brotherton Corporation

### T. SPENCER SHORE

President, The Eagle-Picher Company

### EDWARD D. SMITH

President,  
The First National Bank of Atlanta

### Director Emeritus

WALTER A. DRAPER





# 1961

## ANNUAL REPORT

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### Highlights

	1961	1960	Change
SALES	\$1,842,342,667	\$1,870,289,637	— 1%
NET INCOME	\$ 16,952,685	\$ 23,478,029	— 28%
NET INCOME PER SHARE	\$1.34	\$1.87	— 28%
DIVIDENDS PER SHARE	\$1.10	\$1.10	—
NET WORTH	\$ 188,884,685	\$ 185,077,175	+ 2%
NET WORTH PER SHARE	\$14.96	\$14.75	+ 1%
CAPITAL EXPENDITURES	\$ 32,655,333	\$ 37,619,555	— 13%
DEPRECIATION AND AMORTIZATION	\$ 18,991,628	\$ 17,723,294	+ 7%

# President's Letter

## *To Our Shareowners:*

### *Sales*

Sales of \$1,842,342,667 in 1961 were 1% less than sales in 1960. The sales decline occurred in the first three quarters of the year. Sales in the fourth quarter of the year exceeded sales in the same quarter of 1960 by 1%.

In the latter part of the year retail food prices were lower than the year before. The improvement in sales tonnage in the last quarter was greater than the improvement in dollar sales.

### *Earnings*

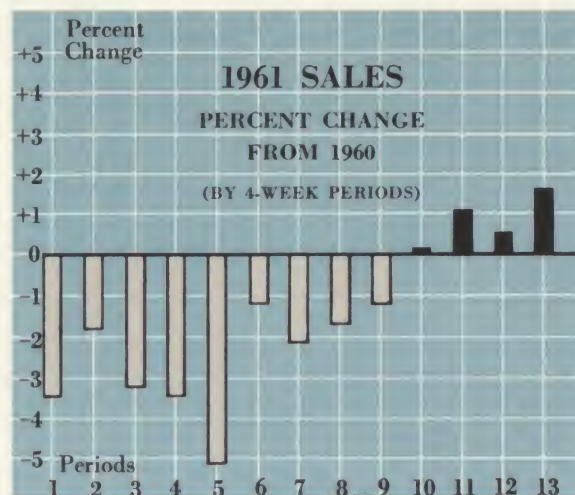
Net income of \$16,952,685 was equal to \$1.34 per share on the shares outstanding at the year end. This compares with \$1.87 per share earned in 1960. Earnings for both years were after a LIFO charge of 5¢ per share.

The earnings trend was steadily upward in the latter part of the year.

Dividends of \$1.10 per share were paid in 1961. This was the 60th consecutive year in which Kroger paid dividends out of current earnings. The regular quarterly dividend of 27½¢ per share payable on March 1, 1962, has been declared.

### *Merchandising Policy*

The third quarter report commented on the severe competitive situation and the action taken in reducing prices to regain sales position. The gradual improvement in sales since midyear is proving the soundness of the current merchandising policy. However, earnings have been adversely affected by lower markups on merchandise as a result of retail price reductions.



Sales in the first four weeks of 1962 were 3% more than a year ago.

During the last few years there has been a rapid development of what are commonly known as discount stores handling all types of merchandise, including food in many instances. This method of self-service retailing is being carefully studied. Kroger is experimenting with separate stores adjoining discounters and with leased food departments in large discount stores, including closed-door (membership) stores.

Flexibility is maintained in store and merchandising programs so that advantage can be taken of trends which may prove profitable to Kroger. Early results reinforce the decision to establish Superex drug stores adjacent to Kroger food stores. This activity will be increased in the current year.

### *Financial Position*

In the early fall \$15,000,000 of 4.8% notes maturing in 1981 and \$3,000,000 of 4.5% notes maturing in 1966 were sold. Year-end working capital was \$95,694,906, an increase of \$18,013,111 from a year ago.



Gromarco Inc. arranged to sell \$12,000,000 of 5% twenty-five-year notes and \$3,000,000 of 4.5% five-year notes at any time up to March, 1963. In 1961 \$4,200,000 of these notes were sold.

This financing in 1961 should be ample to meet requirements through the end of 1962.

### *Store Program*

Seventy-seven new food stores were opened in 1961 and fifty-two existing stores were remodeled. Ninety-five older stores were closed. At the year end there were 1,354 food stores in operation as compared with 1,372 at the end of the prior year. The average store size for all 1961 openings was 19,000 square feet.

New store openings included two in the St. Paul, Minnesota, area. Two additional stores in St. Paul were acquired. This is a new market for Kroger.

Eleven drug stores were opened in 1961 bringing total drug stores in operation to eighteen at year end. Two of the new drug stores were opened in the New Jersey area and are additions to the Sav-On group. The other nine drug stores were established under the name Superex. All but two are located adjacent to Kroger stores. These two drug stores are in shopping centers in the Phoenix, Arizona, area.

All of the drug stores are large, high-volume, self-service operations with ample parking. The progress of the drug store operations to date has been encouraging.

### *Capital Expenditures*

Capital expenditures totaled \$32,655,333 in 1961. This was made up of \$10,475,445 for store land and buildings, \$13,467,835 for store equipment and improvements, \$2,769,239 for distribution centers, \$3,684,576 for transportation equipment, \$2,001,816 for manufacturing facilities and \$256,422 for miscellaneous items. Depreciation and amortization totaled \$18,991,628.

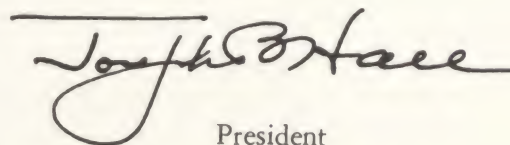
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We regret the deaths of A. T. Kearney, a Director since 1938, and Charles W. Dupuis, a Director Emeritus and Board Member for thirty-two years. Both of them made significant contributions to the growth and progress of the company. Their advice and counsel will be missed.

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1961 was a difficult year. Competition has been unusually aggressive. Wage rates have been increasing more rapidly than productivity in the retail food industry. Continuous efforts are being made to improve merchandising and operating efficiencies. Last year ended on a strong note. The current sales trend is healthy. We expect to obtain further benefits from our aggressive merchandising program in 1962.

Respectfully submitted,



President

February 9, 1962



## Consolidated Balance Sheet

Assets		
	<u>Dec. 30, 1961</u>	<u>Dec. 31, 1960</u>
Cash .....	\$64,004,006	\$ 47,354,159
Marketable securities, at cost.....	201,657	2,007,678
Receivables .....	10,788,589	9,204,686
Merchandise inventories (Note 1).....	121,395,266	118,783,384
Store and general supplies.....	6,984,748	6,626,866
Prepaid and miscellaneous assets.....	<u>3,605,093</u>	<u>4,220,274</u>
TOTAL CURRENT ASSETS.....	206,979,359	188,197,047
Investment in unconsolidated subsidiaries, at cost (Note 2).....	2,758,337	2,661,948
Land, buildings and equipment, at cost or less.....	218,674,990	208,744,046
Less allowance for depreciation.....	(90,073,854)	(83,831,610)
Leaseholds and leasehold improvements, net.....	<u>41,366,083</u>	<u>39,302,535</u>
TOTAL ASSETS .....	\$379,704,915	\$355,073,966



# December 30, 1961 and December 31, 1960

## Liabilities

	<u>Dec. 30, 1961</u>	<u>Dec. 31, 1960</u>
Accounts payable .....	\$ 63,461,747	\$ 57,792,752
Accrued expenses .....	33,210,540	34,655,235
Provision for federal taxes.....	13,812,166	17,267,265
Long-term indebtedness (Note 3).....	800,000	800,000
<b>TOTAL CURRENT LIABILITIES.....</b>	<b>111,284,453</b>	<b>110,515,252</b>
Long-term indebtedness (Note 3).....	62,634,112	45,502,219
Deferred federal taxes.....	12,245,000	9,745,000
Employees' benefit fund.....	4,656,665	4,234,320
<b>CAPITAL</b>		
Preferred capital stock, par \$100.....	35,300	35,300
Common capital stock, par \$1 (Note 4):		
Authorized: 18,000,000 shares		
Outstanding: 1961, 12,621,498 shares, after deducting 11,700 shares in treasury at cost, \$360,556; 1960, 12,547,044 shares	58,193,675	57,480,488
Accumulated earnings (Note 3).....	130,655,710	127,561,387
<b>TOTAL CAPITAL .....</b>	<b>188,884,685</b>	<b>185,077,175</b>
<b>TOTAL LIABILITIES AND CAPITAL.....</b>	<b>\$379,704,915</b>	<b>\$355,073,966</b>

## Consolidated Statement of Income

Years Ended December 30, 1961 and December 31, 1960

	1961	1960
Sales .....	\$1,842,342,667	\$1,870,289,637
Cost of sales.....	1,486,958,842	1,504,111,546
Operating and other expenses.....	<u>320,348,140</u>	<u>317,960,062</u>
Total.....	<u>\$1,807,306,982</u>	<u>\$1,822,071,608</u>
Income before federal taxes on income.....	35,035,685	48,218,029
Federal taxes on income.....	<u>18,083,000</u>	<u>24,740,000</u>
Net income .....	\$ 16,952,685	\$ 23,478,029

## Consolidated Statement of Accumulated Earnings

Year Ended December 30, 1961

Accumulated earnings—December 31, 1960.....		\$ 127,561,387
Net income for 1961.....	\$ 16,952,685	
Dividends .....	<u>13,858,362</u>	<u>3,094,323</u>
Accumulated earnings—December 30, 1961.....		\$ 130,655,710



## Notes to Financial Statements

1. Merchandise inventories are valued at the lower of cost or market, and in part are on the Lifo basis.
2. All wholly-owned subsidiaries have been included in consolidation. The company's equity in the net assets of unconsolidated subsidiaries amounted to \$4,592,288 at December 30, 1961. Dividends of \$157,500 were received from one of the subsidiaries in 1961. The company's equity in earnings of unconsolidated subsidiaries for 1961 amounted to \$502,656.

3. Long-term indebtedness:

3.1% notes maturing October 1, 1971; with annual prepayment of \$700,000.....	\$13,300,000
3¼% notes maturing June 1, 1963.....	20,000,000
4¾% promissory notes, 70% maturing November 5, 1978 and 30% maturing March 2, 1979.....	10,000,000
4.8% promissory notes maturing October 19, 1981; annual prepayments of \$750,000, without premiums, required beginning October 19, 1966.....	15,000,000
4.5% promissory notes maturing November 13, 1966.....	3,000,000
Other .....	2,134,112
	<u>\$63,434,112</u>
Less, amounts due within one year.....	800,000
	<u>\$62,634,112</u>

Under certain of the loan agreements, payments of cash dividends are limited. At December 30, 1961, accumulated earnings unrestricted, under the agreement carrying the maximum limitation, amounted to \$18,807,511.

4. Options to officers and executives to purchase 512,890 shares of Kroger common stock were in force at December 31, 1960. Option transactions during the year may be summarized as follows: granted 41,000 shares; exercised 86,154 shares; expired or cancelled 22,822 shares. Options to purchase 444,914 shares were in force at December 30, 1961. Shares available for option at the beginning and close of the year were 104,863 and 183,000, respectively. Options for 102,024 shares were exercisable at December 30, 1961.
5. The company operates principally in leased premises. At December 30, 1961, there were 625 leases expiring subsequent to 1966.

*Report of  
Certified Public Accountants*

LYBRAND, ROSS BROS. & MONTGOMERY  
CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors,  
The Kroger Co.  
Cincinnati, Ohio

We have examined the consolidated balance sheet of The Kroger Co. and subsidiary companies as of December 30, 1961, and the related consolidated statements of income and accumulated earnings for the fiscal year (fifty-two weeks) then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statements of income and accumulated earnings present fairly the consolidated financial position of The Kroger Co. and subsidiary companies at December 30, 1961, and the results of their operations for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding fiscal year.

Cincinnati, Ohio  
February 9, 1962

*Lybrand, Ross Bros. & Montgomery*



# 10 Year Statistical

## For the Year

	1961	1960	1959	1958
SALES.....	\$1,842,342,667	\$1,870,289,637	\$1,911,902,467	\$1,776,175,147
NET INCOME BEFORE TAXES....	\$ 35,035,685	\$ 48,218,029	\$ 54,137,920	\$ 44,432,930
NET INCOME.....	\$ 16,952,685	\$ 23,478,029	\$ 25,516,920	\$ 21,629,930
NET INCOME PER SHARE (1).....	\$1.34	\$1.87	\$2.06	\$1.76
DIVIDENDS PER SHARE (2).....	\$1.10	\$1.10	\$ .95	\$ .72 ½
RETAINED EARNINGS.....	\$ 3,094,323	\$ 9,732,605	\$ 13,751,230	\$ 12,739,263

## At the Year End

CASH.....	\$ 64,004,006	\$ 47,354,159	\$ 52,865,583	\$ 52,566,148
MERCHANDISE INVENTORIES....	\$ 121,395,266	\$ 118,783,384	\$ 118,862,668	\$ 116,628,932
NET WORKING CAPITAL.....	\$ 95,694,906	\$ 77,681,795	\$ 93,854,922	\$ 86,679,309
NET FIXED ASSETS.....	\$ 169,967,219	\$ 164,214,971	\$ 145,970,482	\$ 130,504,808
ACCUMULATED EARNINGS.....	\$ 130,655,710	\$ 127,561,387	\$ 117,828,782	\$ 104,077,552
NET WORTH.....	\$ 188,884,685	\$ 185,077,175	\$ 173,461,086	\$ 158,573,593
NET WORTH PER SHARE (1).....	\$14.96	\$14.75	\$13.97	\$12.87
NUMBER OF SHAREOWNERS.....	36,368	35,663	34,972	28,514
NUMBER OF EMPLOYEES.....	37,308	39,691	40,157	40,500
NUMBER OF FOOD STORES.....	1,354	1,372	1,393	1,428
ANNUAL SALES PER STORE.....	\$ 1,349,702	\$ 1,357,249	\$ 1,357,885	\$ 1,257,914
TOTAL STORE AREA (Square Feet)	18,939,624	18,264,615	17,392,580	16,805,232

(1) Adjusted for 3 for 1 split in 1958 and 4% common stock dividends in 1956 and 1957.

(2) Adjusted for 3 for 1 split in 1958.

(3) Plus 4% stock dividend.



# Summary



1957	1956	1955	1954	1953	1952
\$1,674,123,593	\$1,492,552,233	\$1,219,474,812	\$1,108,694,168	\$1,058,608,651	\$1,051,849,935
\$ 41,505,207	\$ 34,515,450	\$ 27,994,575	\$ 27,326,912	\$ 29,309,664	\$ 27,935,387
\$ 20,635,207	\$ 17,071,250	\$ 14,368,292	\$ 14,912,912	\$ 12,528,664	\$ 12,110,087
\$1.70	\$1.41	\$1.20	\$1.24	\$1.05	\$1.02
\$ .66⅔(3)	\$ .66⅔(3)	\$ .66 ⅔	\$ .66 ⅔	\$ .66 ⅔	\$ .63
\$ 12,866,895	\$ 9,641,277	\$ 6,962,639	\$ 7,530,540	\$ 5,168,732	\$ 5,128,286
\$ 42,927,467	\$ 41,518,152	\$ 40,696,076	\$ 34,627,962	\$ 41,792,719	\$ 40,078,625
\$ 111,474,382	\$ 106,274,996	\$ 95,112,775	\$ 84,667,841	\$ 81,196,446	\$ 77,143,349
\$ 73,136,938	\$ 71,945,596	\$ 79,180,095	\$ 67,522,366	\$ 68,707,575	\$ 65,884,745
\$ 108,866,641	\$ 95,528,379	\$ 79,616,588	\$ 59,575,135	\$ 50,451,043	\$ 47,843,817
\$ 91,338,289	\$ 87,656,514	\$ 85,163,541	\$ 78,200,902	\$ 70,670,362	\$ 65,501,630
\$ 143,730,410	\$ 130,159,964	\$ 119,910,406	\$ 112,585,204	\$ 104,646,321	\$ 99,216,265
\$11.83	\$10.77	\$ 9.97	\$ 9.39	\$ 8.76	\$ 8.32
26,583	26,621	26,596	25,501	25,914	26,088
39,389	36,807	33,705	30,320	29,105	28,396
1,421	1,476	1,587	1,678	1,810	1,891
\$ 1,157,006	\$ 982,589	\$ 740,871	\$ 634,991	\$ 570,678	\$ 544,717
15,092,774	13,918,774	12,750,326	11,318,339	11,059,602	10,810,237

